

Commonwealth of Kentucky

Inventory Analysis

General

Inventories are those items held for internal consumption or resale to other state government units or outside parties and expected to be used within one year.

The "Inventory Analysis" form AFR 40 must be prepared for all Proprietary funds. Governmental funds should submit the "Inventory Analysis" to the Division of Statewide Accounting Services only if the agency maintains a central supply room, a printing operation, or a field operation requiring a supply room (e.g., hospitals, maintenance garages, etc.). Agencies whose inventory is accounted for in the MARS system need not fill out this form.

The major categories to be used for inventory are:

- A. Items for resale (including merchandise, prepared food and supplies for resale), and
- B. Material and supplies, which consist of the following:
 - 1. Supplies (including materials, supplies, parts and drugs);
 - 2. Commodities (including food products, fuels and lubricants, and raw materials);
 - 3. Transportation commodities (including highway maintenance items);
 - 4. "Other" (used for material inventories not noted above).

In accordance with the accounting principles applicable to inventories, State agencies must value their inventory at the lower of cost or market. The first in, first out (FIFO) method should be used to establish inventory cost.

Agencies with an established inventory system shall value their inventory at the lower of cost or market based on their system, and indicate the method the system uses for valuing the inventory. Where perpetual inventory records are not maintained, the following steps must be completed as of June 30, 2006, to determine the lower of cost or market:

- Step 1 Determine the cost of inventory based on the FIFO method which assumes that goods are used in the order in which they are purchased. The inventory value is a build-up or layering of the most recent purchase costs. Cost is defined as the price paid or consideration given to acquire the inventory item. Include in the cost all direct and indirect costs incurred during transportation.

Step 2 Determine the market value of inventory. Market is defined as the item's current replacement cost by either purchase or reproduction. Exceptions to this definition, which generally apply only to proprietary and non-expendable trust funds, are guided by the following rules:

- a. The market should not exceed the net realizable value (ceiling), which is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal.
- b. The market should not be less than the net realizable value reduced by an allowance for a normal profit (floor).

Step 3 Determine the lower of cost or market for each type of item by subtracting the "Reductions to Cost" from "Cost".

Detailed Instructions
AFR 40
Inventory Analysis

1. Enter the date the form is completed.
2. Enter the official agency name.
3. Enter the cabinet and agency number.
4. Enter the fund name.
5. Enter the four-digit fund number.
6. Enter the actual cost of the inventory items based on the FIFO valuation method.
7. When the market value of an item is lower than cost, enter the difference.
8. Subtract item 7 from item 6 and enter the result.
9. Add all amounts in item 6 and enter the total onto the total line.
10. Add all amounts in item 7 and enter the total onto the total line.
11. Add all amounts in item 8 and enter the total onto the total line.
12. Indicate if valuation method is other than FIFO.
13. Enter the name of the person who prepared this form.
14. Enter the phone number of the person who prepared this form.